

## **TO THE SHAREHOLDERS:**

On behalf of the Board of Directors (the "Board") of Softbank Investment International (Strategic) Limited (the "Company" or "SIIS"), I am pleased to present the operating results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2000.

## **INTERIM RESULTS AND DIVIDENDS**

Consolidated turnover of the Group was HK\$72.2 million for the six months ended 31 December 2000, representing a decrease of approximately 12% over the corresponding six months ended 31 December 1999 (HK\$82.2 million) and a decrease of approximately 10% over the interim period for the six months ended 30 September 1999 (HK\$80.6 million). Consolidated profit attributable to shareholders amounted to HK\$6 million during this interim period, compared with a net loss of HK\$16.5 million for the corresponding six months ended 31 December 1999 and a net loss of HK\$10.3 million over the interim period for the six months ended 30 September 1999. Earnings per share were HK0.32 cent (six months ended 31 December 1999: loss per share HK2.55 cents; six months ended 30 September 1999: loss per share HK1.75 cents).

The Board has resolved not to pay any interim dividend to shareholders (1999: nil).

## **BUSINESS REVIEW AND PROSPECTS**

As the Group's business was still in the process of restructuring during the period under review, the financial results for the six months ended 31 December 2000 mainly reflect the performance of our pre-existing businesses including dyestuffs distribution, household fabrics and garment manufacturing, as well as property investments. Nonetheless, the Group recorded a net profit for the period under review, which can be attributed to the gains arising from the disposal of certain businesses.

It should be noted that, in view of the current downturn in market conditions, in particular in the technology sector, Management has undertaken a revaluation exercise in respect of the Group's investments in the Internet sector. As a result, Management believes that the carrying values of certain of the Group's long-term investments (categorised in the

Group's accounts as "non-trading securities") should be written down. The Group's reserve for investment revaluation has accordingly been increased from approximately HK\$27 million to approximately HK\$95 million. As these investments were made relatively recently, and given the volatility of the market and general uncertainty of the longer term market trend, Management for the present has decided not to treat these devaluations as permanent. The devaluations have therefore not been included in the profit and loss account, but have instead been provided for in the investment revaluation reserve. Management shall continue to closely monitor these investments and, in the event that these devaluations are determined to be of a more permanent nature, these devaluations will be realised as losses and reflected in the profit and loss account.

I am also pleased to announce that effective from 1 December 2000, SIIS has become a constituent of the Hang Seng 100 index, indicating that it is one of the 100 highest-ranking companies listed on the Stock Exchange of Hong Kong in terms of market capitalization and turnover.

## **Dyestuffs Distribution**

Dyestuffs distribution business accounted for approximately 28% of the Group's turnover. The division recorded HK\$20 million in turnover for the six months ended 31 December 2000, representing a decrease of 27% over the corresponding six months ended 31 December 1999 (HK\$27.5 million). But the operating loss for this division decreased by 19% to HK\$1.3 million during this interim period, compared with an operating loss of HK\$1.6 million for the corresponding six months ended 31 December 1999. During the period under review, the Company disposed of its interests in Takson Limited, a wholly-owned subsidiary which has equity interests in a loss-making entity, namely Nanhai Shiquan Textile Auxiliary Factory, in the PRC.

Our restructuring strategy for this division includes transforming its offline operations into e-commerce operations where suitable. Feasibility studies conducted by our Net-Trans division are still ongoing and we look forward to reporting to shareholders the progress made.

## **Household Fabrics and Garment Manufacturing**

Household fabrics and garment manufacturing business accounted for approximately 60% of the Group's turnover. Turnover of the division decreased by 9% to HK\$43.3 million for the six months ended 31 December 2000, compared with the turnover of HK\$47.6 million for the corresponding six months ended 31 December 1999. But the division made an operating profit of HK\$15.1 million during this interim period, compared with an operating loss of HK\$0.2 million for the corresponding six months ended 31 December 1999. The significant improvement was mainly due to a gain of HK\$14.5 million arising from the disposal of the household fabrics manufacturing operations which included two companies, namely Alliance Printing and Manufacturing Company Limited and Asiapeak International Limited. Both companies were wholly-owned and loss-making subsidiaries, engaging in the household fabrics and bed linen manufacturing business. The Directors considered that the disposals were in the best interests of the Company. We will continue to control the cost and review the operations, and when appropriate, will make further disposals of loss-making subsidiaries.

## **Property Investments and Other**

Turnover of the division increased by 25% to HK\$8.9 million for the six months ended 31 December 2000, compared with the turnover of HK\$7.1 million for the corresponding six months ended 31 December 1999. The division recorded an operating loss of HK\$3.4 million during this interim period, compared with an operating loss of HK\$13.7 million for the corresponding six months ended 31 December 1999.

## **Business Development Division**

The objective of the Business Development Division is to identify and evaluate strategic partners and investment opportunities which could bring synergy with our existing businesses (such as the Net-Trans Division and the Time Machine Division).

The term of the agreement with chinadotcom corporation ("CCC") dated 31 March 2000 was extended. Pursuant to the agreement with CCC, the Company and CCC conditionally agreed to exchange new shares with each other and to establish a 50/50 joint venture to provide technology and business consultancy services. Further information will be published as soon as the ongoing negotiations between the Company and CCC are finalized.

On 1 August 2000, the Company subscribed for shares in Softbank Asia Net-Trans Fund Limited (the "Fund") for a total consideration of US\$6 million (equivalent to approximately HK\$46.5 million). Targeting the Asian market (excluding Japan), the Fund aims to invest in traditional offline businesses that have the potential to be converted into successful online businesses and companies that can bring synergy to the core segments of the commercial Internet arena including e-commerce, content provision, business services and consumer services. The Fund is managed by Softbank China Venture Investments Limited, an indirect wholly-owned subsidiary of SOFTBANK CORP., the Company's substantial shareholder. The Board believes that, besides the possibility of financial benefits, the investment may help the Group to establish strong relationships and develop new businesses with other offline companies that are going online and technology companies which focus on e-enabling businesses. The Board believes that this may also be particularly beneficial to the Company's Net-Trans Division.

On 11 August 2000, the Company purchased 10% of the issued share capital of China Travel Net Limited ("CTN") from China Travel Service (Holdings) Hong Kong Limited for a total consideration of HK\$100 million. CTN, a provider of travel-related application software systems, including identity and security documentation as well as information management system, is expanding into the online travel business to provide comprehensive information and ticketing services to travellers and traditional travel agents. The Board believes that the online travel business has the potential to expand considerably over time.

On 7 November 2000, the Company purchased 1,867,200 shares (10% of the issued share capital) of Morningstar Asia Limited ("Morningstar Asia") from Advanced Internet Visions Limited ("AIV"), a subsidiary of Pacific Century CyberWorks Limited ("PCCW"), for a total consideration of HK\$18.7 million. Morningstar Asia, a joint venture between SIIS, Softbank Finance Corp., AIV and Morningstar Inc., aims to provide consumer-oriented websites in Asia which offer data and customized editorial content on the domestic stocks and mutual funds of Asian countries. Morningstar Asia also has an exclusive license to market and distribute Morningstar products in Asia (excluding Japan, Korea and Australia) and develop Asian-focused derivative products from the standard Morningstar products. In view of the successes of Morningstar Inc. and Morningstar Japan, the Board believes that the investment in Morningstar Asia has potential to bring strategic and financial benefits to the Group.

## **Net-Trans Division**

The role of the Net-Trans Division is to assist non-Internet related businesses to transform their business models into Internet-related businesses by infusing appropriate IT resources.

It is generally accepted that the Internet will have a dramatic impact on the way people do business. As traditional offline companies prepare to integrate the Internet into their existing operations in order to cut costs, enhance efficiency and reach into new marketplaces, the Company is positioning the Net-Trans Division to capitalise on this movement.

During the period under review, the Net-Trans Division was responsible for starting the transformation of certain aspects of the Group's dyestuff operations into e-commerce operations, providing IT support including design, implementation and maintenance of the corporate website (<http://www.softbank.com.hk>), office automation, LAN/WAN and the IT infrastructures for the Company and its affiliates, as well as exploring the development of Net-Trans businesses based on strategies defined by Management or by cooperating with Group companies and affiliates.

## **Time Machine Division**

We recognize that Internet development in Asia lags behind the U.S.. The objective of the Time Machine Division is to study successful overseas Internet business models and, where appropriate, apply them locally with the appropriate level of localisation. In view of the success stories of Time Machine businesses in Japan, such as Cisco Japan, E\*Trade Japan, Morningstar Japan and the others, we believe that the same concept may be applicable to Hong Kong and other Asian markets.

During the period under review, the division worked closely with the Business Development Division as well as Softbank Finance Corp., PCCW and Morningstar Inc. to implement the U.S. Morningstar model — to be a leading independent provider of reliable, unbiased investment information and analytic tools — in Hong Kong (please refer to additional information in the Business Development Division section above).

## **New Development & Prospects**

Leveraging on the global network of the SOFTBANK Group which has over 400 companies, SIIS is well positioned to collaborate with leading Internet companies to help shape the global e-future. Notwithstanding the recent "tech meltdown", we are still confident that the Internet will be a driving force for economic development, with companies eventually adopting the Internet into their daily operations to cut costs and enhance efficiency.

SIIS has further strengthened its position by strategically diversifying its core businesses into another promising arena — financial services. Subsequent to the period, on 31 January 2001, SIIS reached an agreement with Hong Kong-listed e2-Capital (Holdings) Limited ("e2-Capital") to acquire 51% of the issued share capital of e2-Capital Securities (Holdings) Limited ("e2-Capital Securities"), a wholly-owned subsidiary of e2-Capital. e2-Capital Financial Services Group (to be identified as "A Member of Softbank Investment Group"), comprising e2-Capital Securities (to be renamed as "SBI e2-Capital Limited") and its subsidiaries, is the financial services arm of e2-Capital. The business of e2-Capital Financial Services Group comprises technology investment banking and securities broking businesses in Hong Kong, the PRC, Singapore and the USA. It has a proven track record and prominent financial expertise. Meanwhile, SIIS also reached an agreement with its parent company, Softbank